

Overview of the Tennessee Workers' Compensation Market Conditions

(Revised)

Tennessee Workers' Compensation
Advisory Council

August 29, 2007

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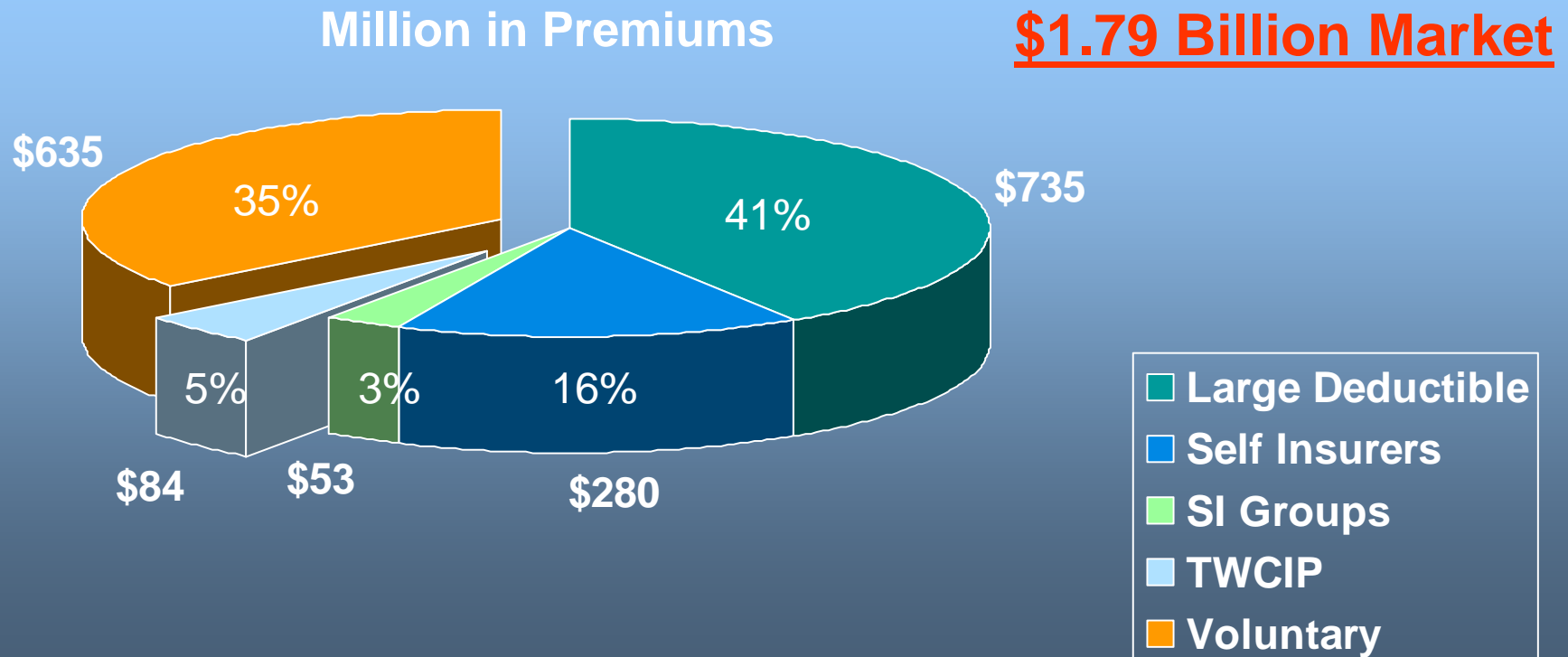
Tennessee Department of Commerce & Insurance

Outline

- Market Segmentation
- National Picture
- Tennessee Specific
- Assigned Risk Pool
- Self-Insurance
- Update on Company Insolvencies

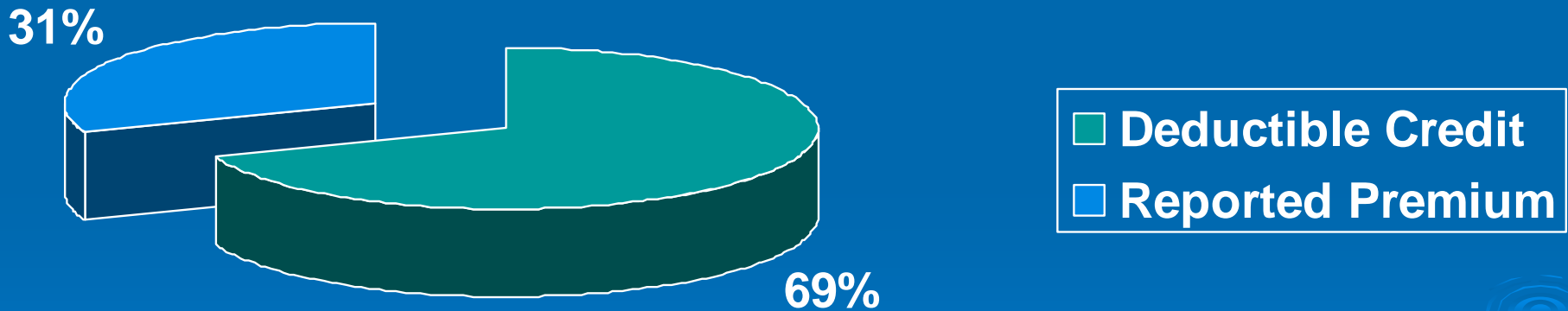
2006 Market Segments

Large Deductibles are represented on a non-credited basis; Self Insureds are on an equivalent basis

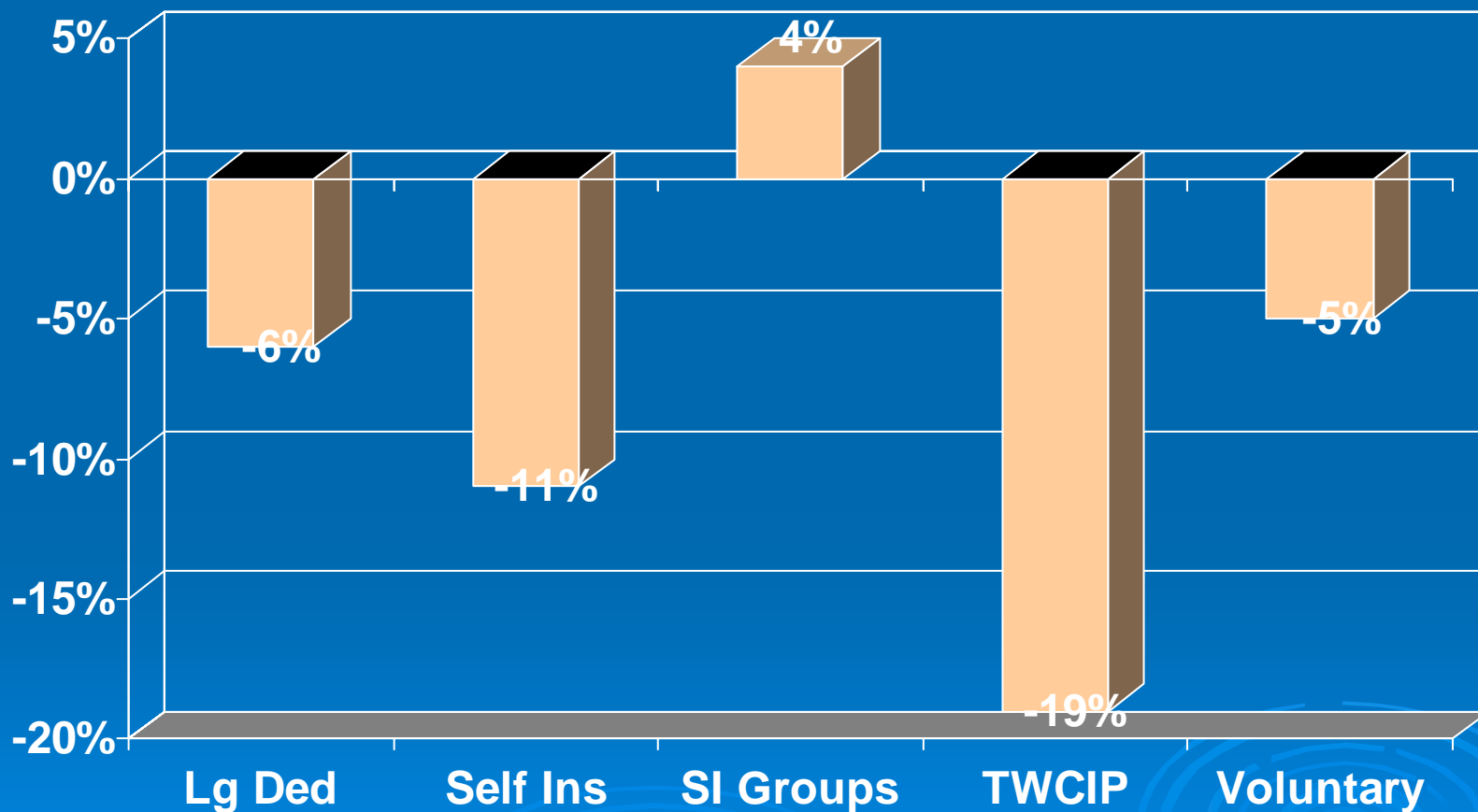


Large Deductible Premium is gross/estimated; SI Groups exclude government groups.

Percentage of Manual Large Deductible Premium Dollars Reported



Premium Change in Market Segments from 2005-2006



National Picture

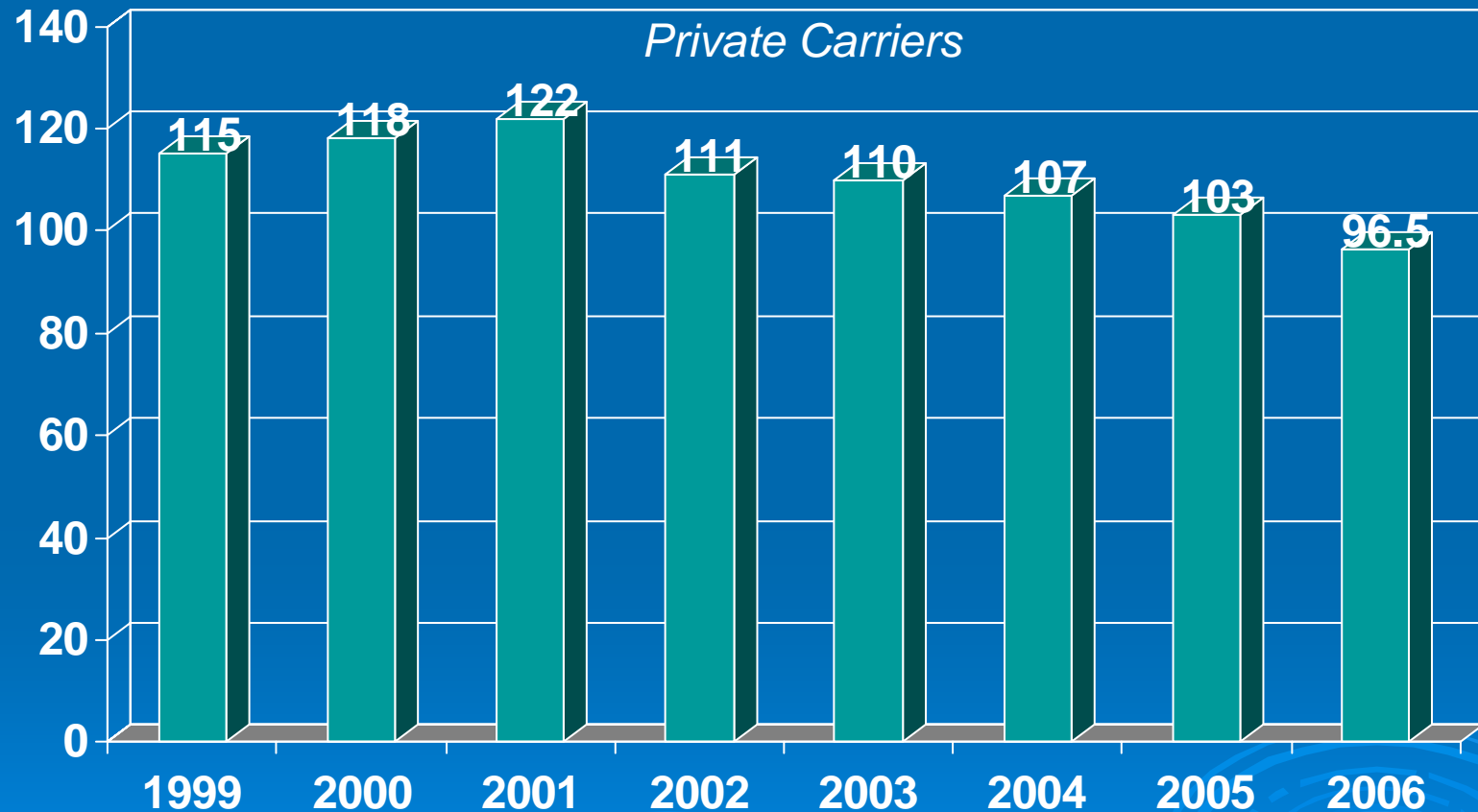
Industry Underwriting Results Are Remarkably Good

Net Combined Ratio – Private Carriers

Line of Business	2004	2005	2006
Personal Auto	94%	95%	93%
Homeowners	94%	100%	90%
Com. Multi Peril	101%	97%	87%
Com. Auto	93%	92%	91%
Workers' Comp	107%	103%	96.5%
Total P&C Industry	98%	101%	92%

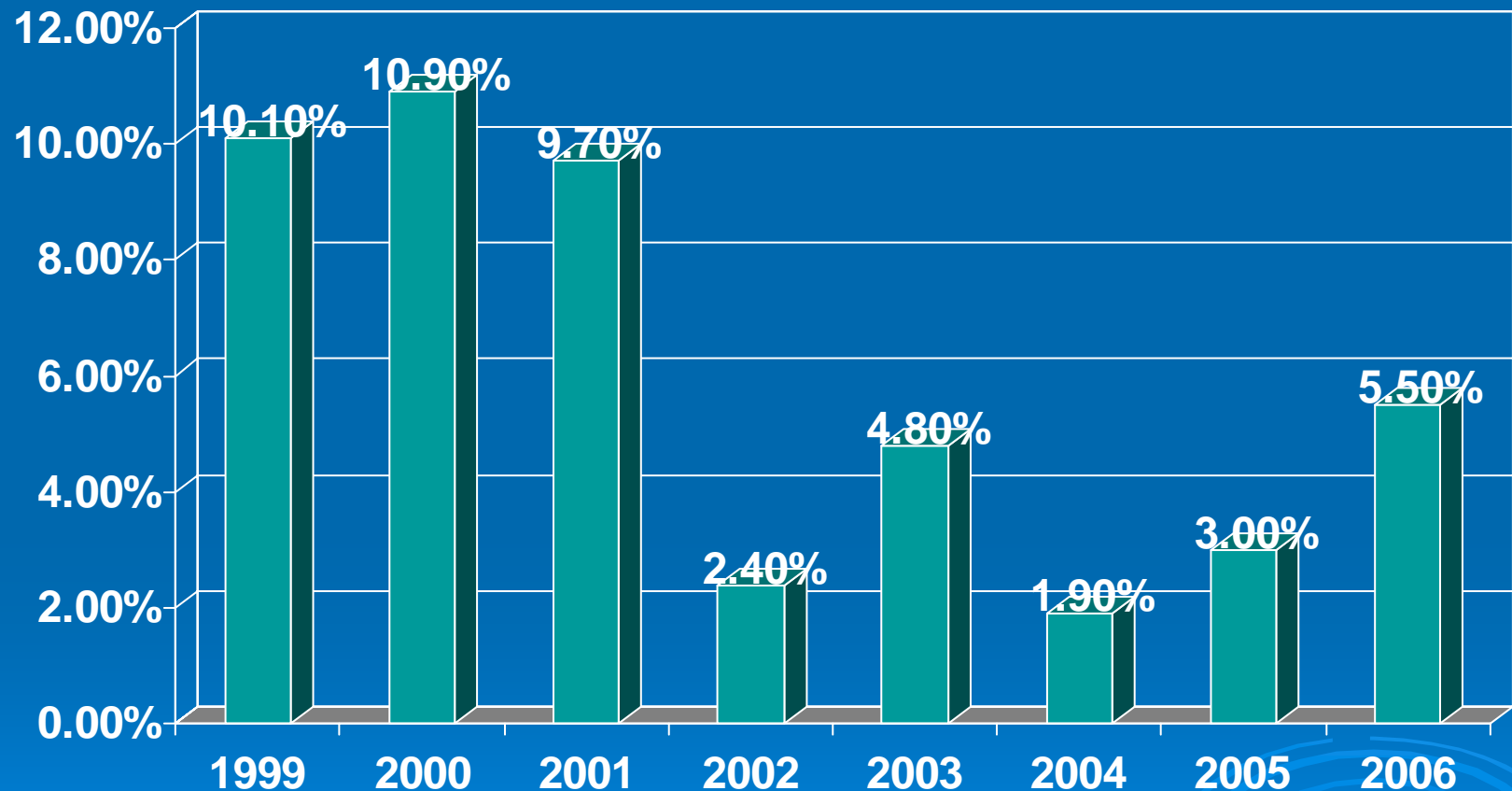
Source: Workers' Compensation: NCCI; All Other Lines: Best Preview & ISO

WC Calendar Year Combined Ratios Best in at Least 30 Years



Source: NCCI (2006 preliminary)

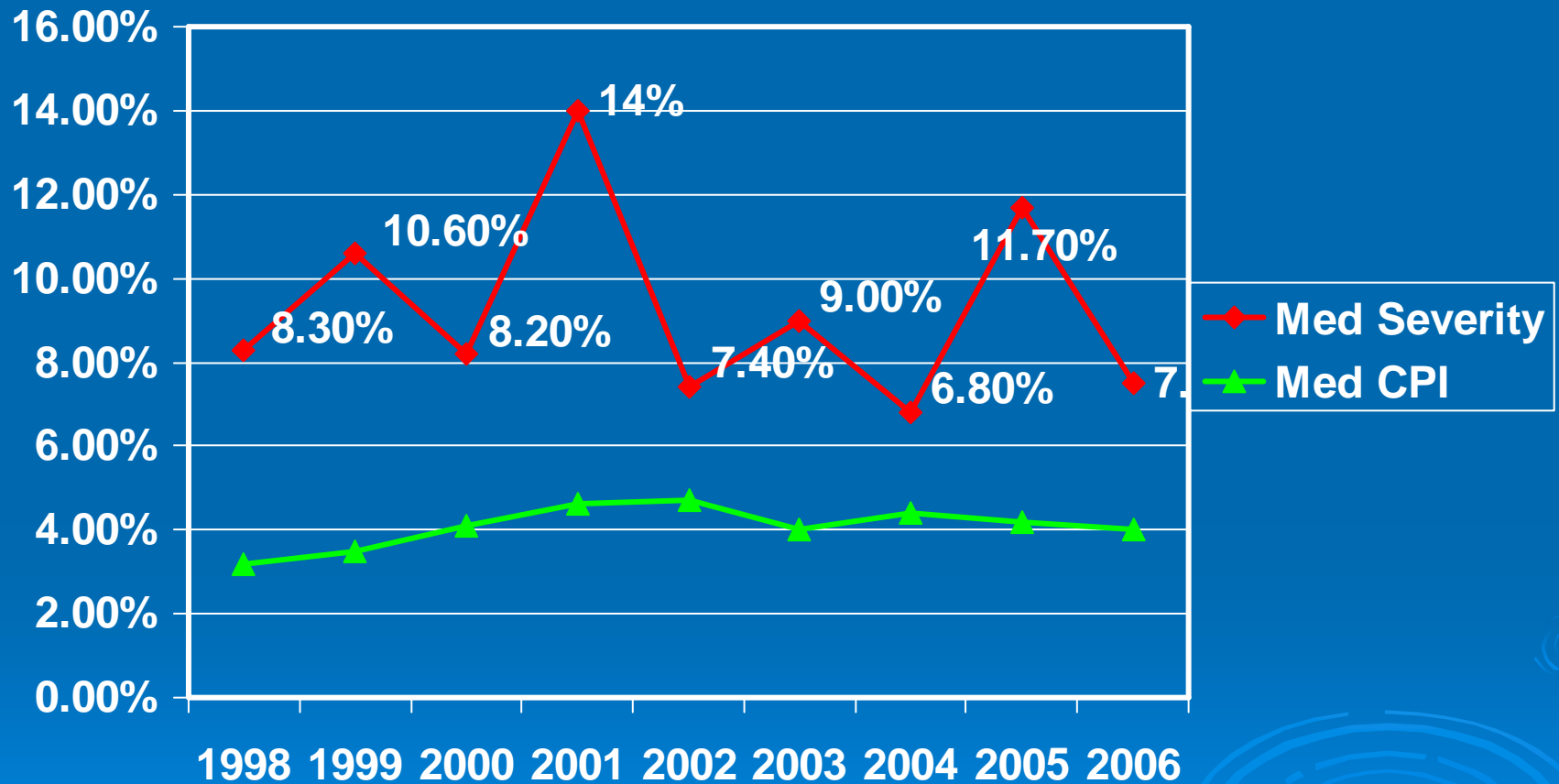
Workers' Compensation Indemnity Claims Cost Increases



Source: NCCI (2006 preliminary)

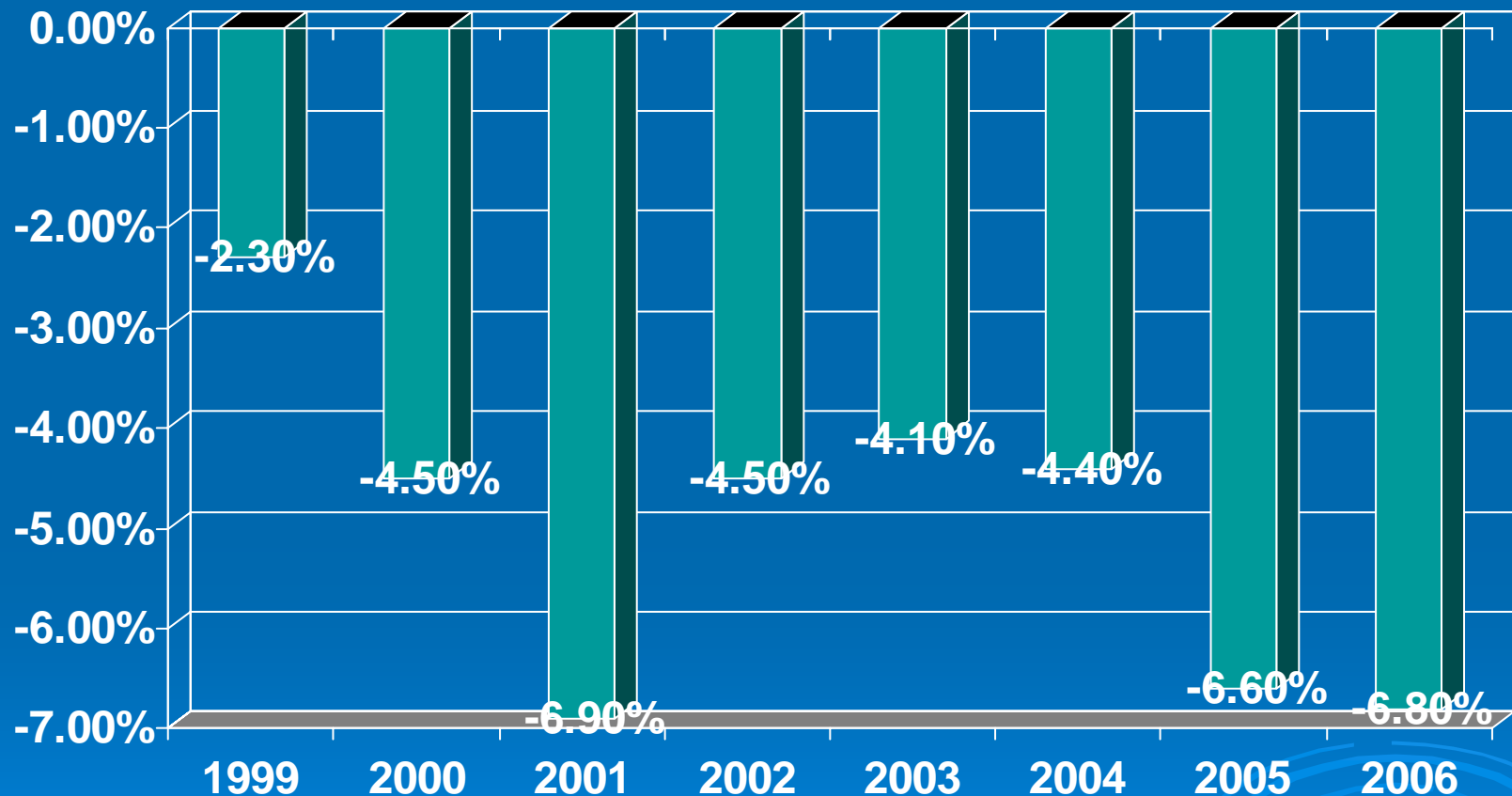
WC Medical Claim Cost Trends

(Lost Time Cases)



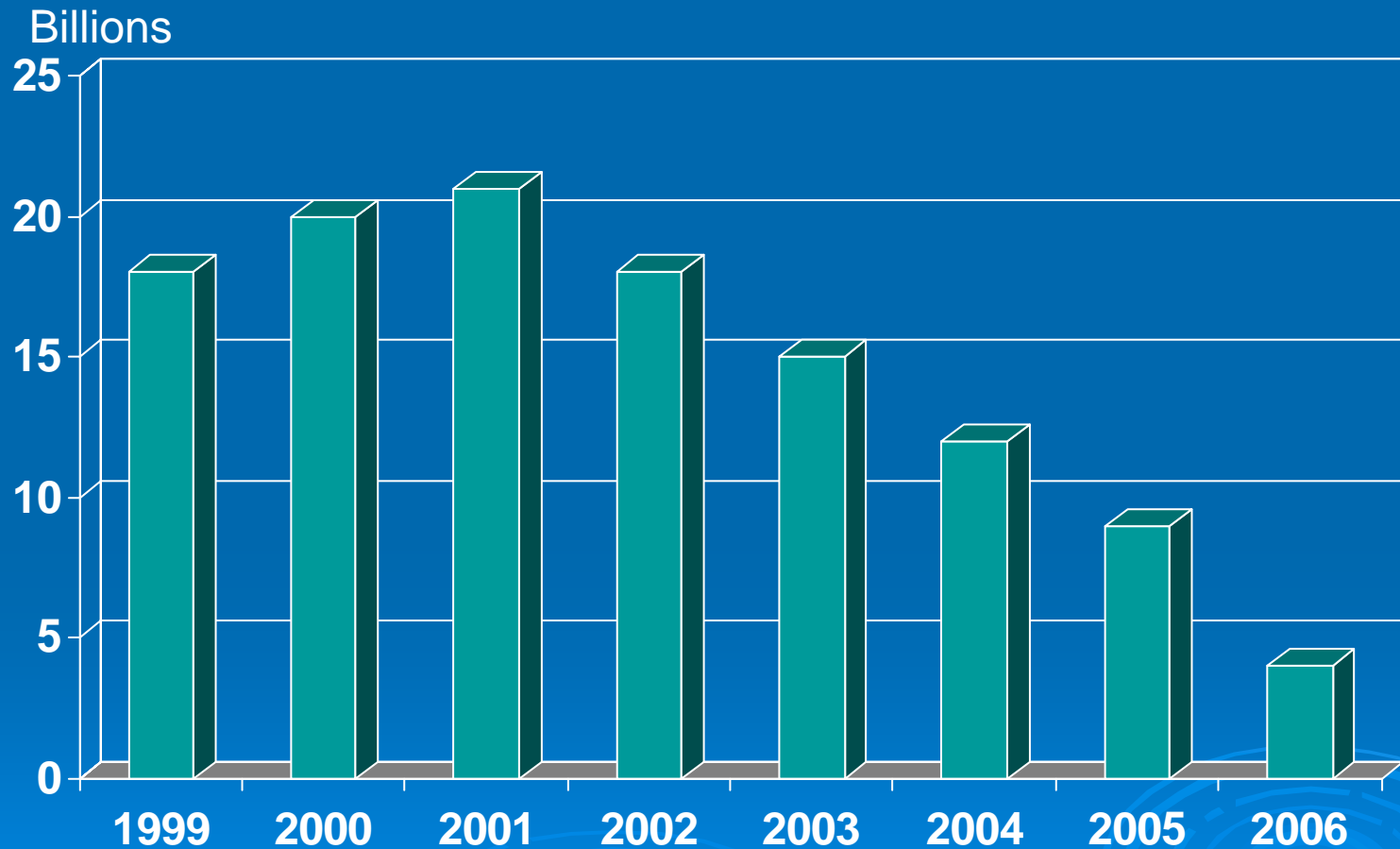
Source: NCCI (2006 preliminary); Med CPI: Economy.com

Lost Time Frequency Continues to Decline



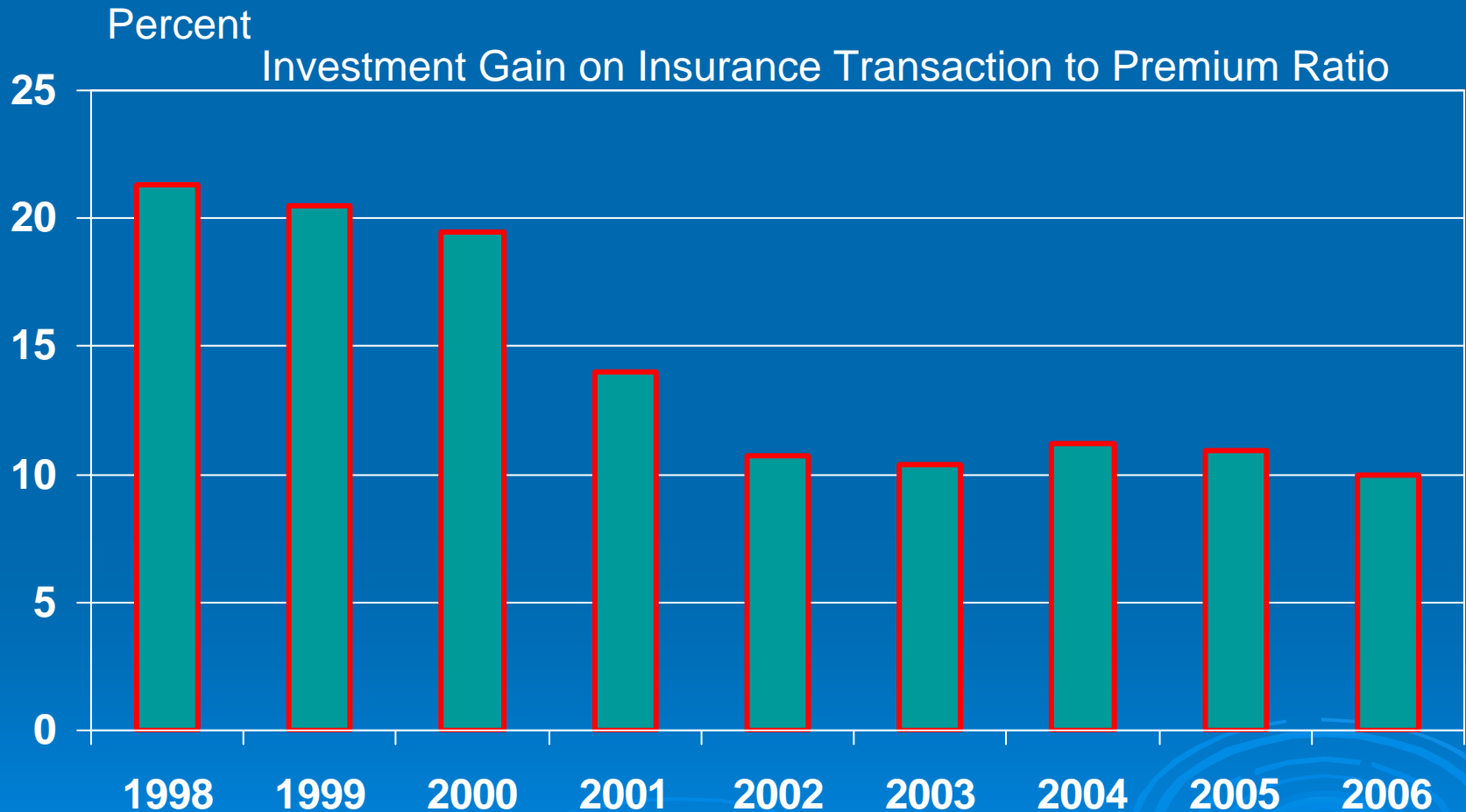
Source: NCCI (2006 preliminary)

WC Reserve Deficiencies Continue to Decline



Source: NCCI (2006 preliminary)

WC Low Investment Returns Persist

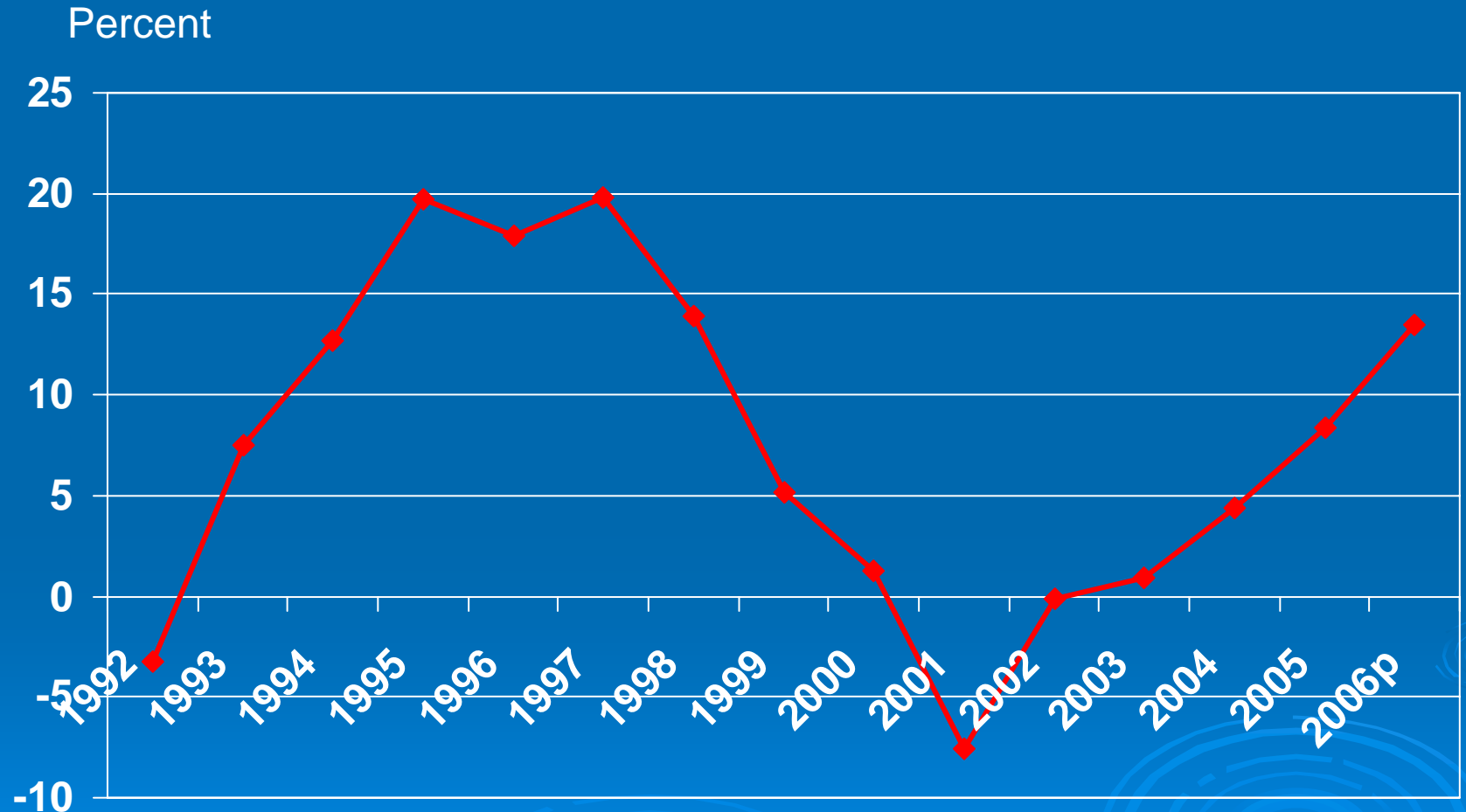


Source: A.M. Best/NCCI (2006 is estimated)

Private Carriers

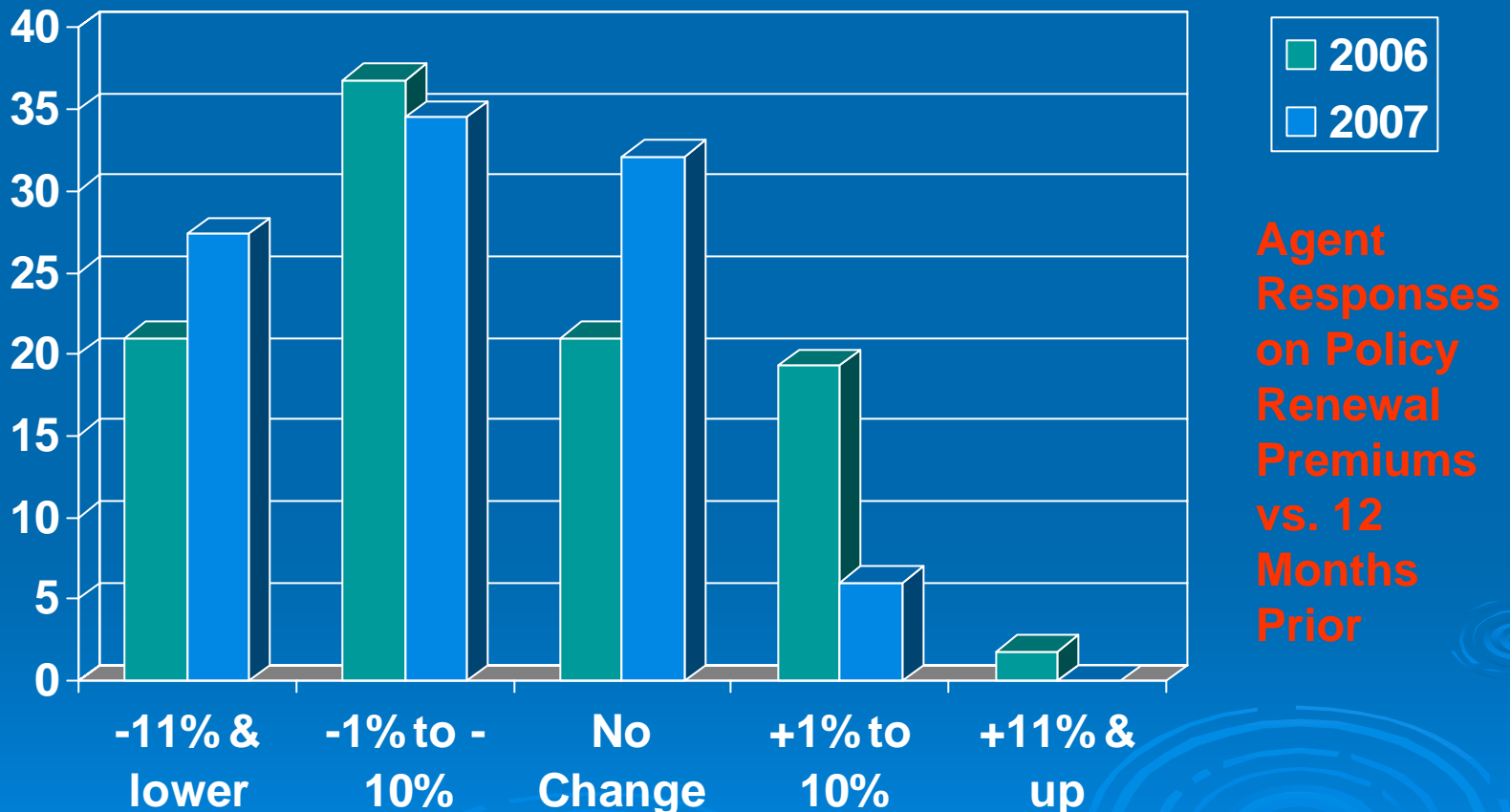
WC Results Continue to Improve

Pre-Tax Operating Gain Ratio – Private Carriers



Source: AM Best (2006 is estimated by NCCI)

According to Goldman Sachs, Most Survey Respondents See Flat or Declining WC Prices

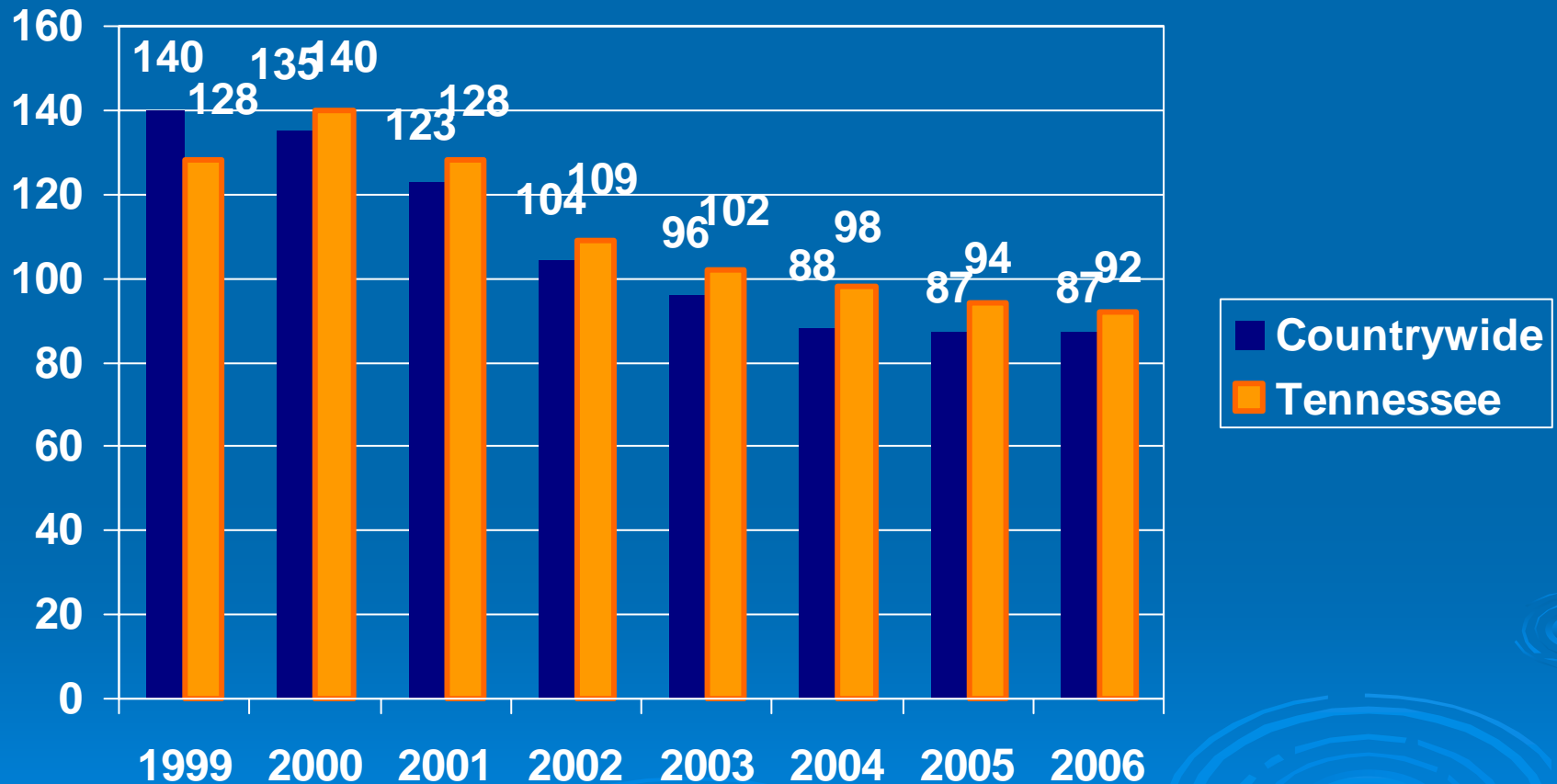


Source: Goldman Sachs Research, Insurance: Non-life Proprietary Survey (Exhibit 9, Workers' Compensation, Percentage of Respondents)

Tennessee Specific

Accident Year Combined Ratios

California Driving Countrywide Results

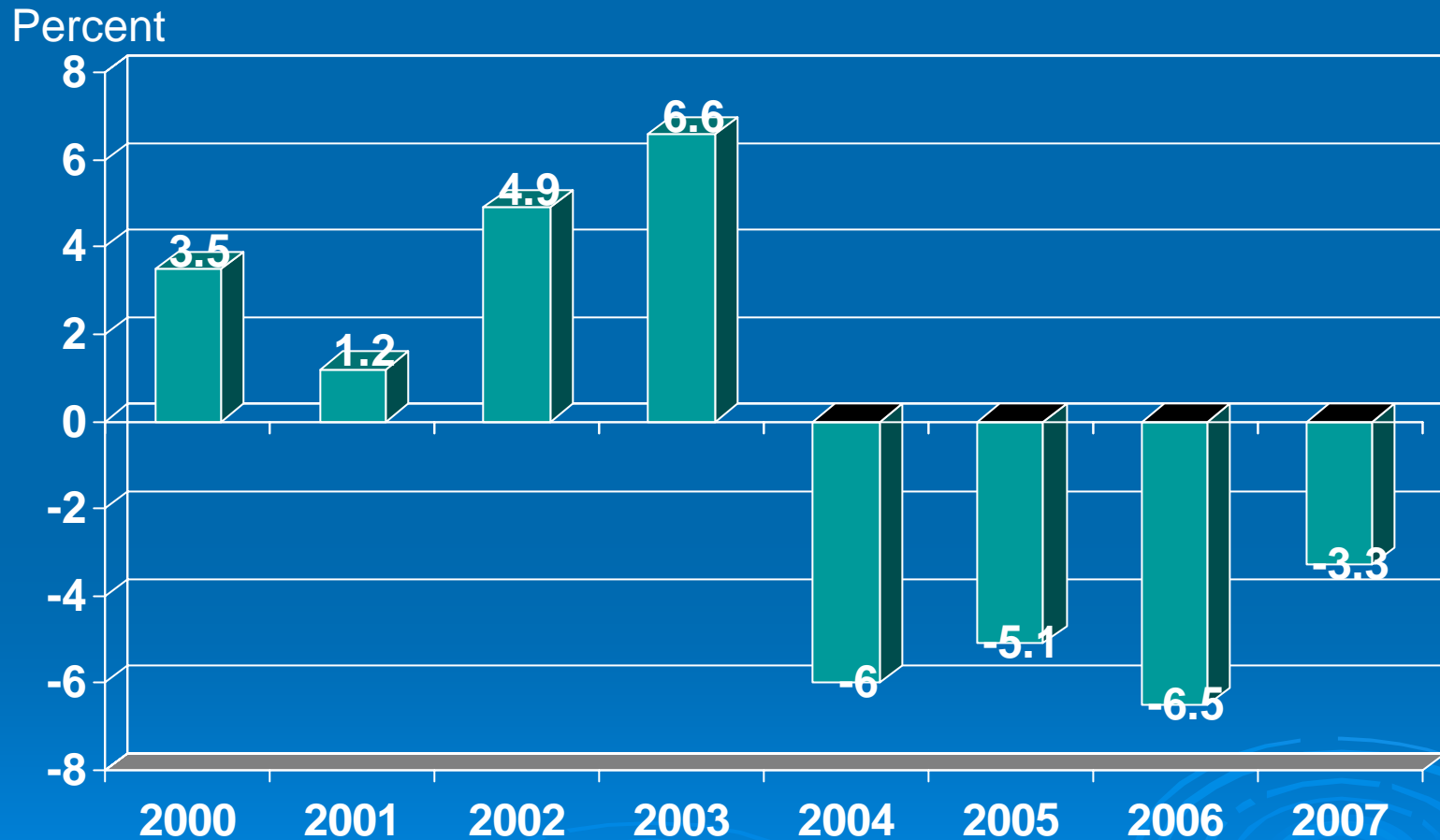


Source: NCCI; 2006 Preliminary

Loss Cost Filing & Final Approvals since March 1, 2002

Year Filing Made	NCCI Filed Rate	Advisory Council Recommendation	Commerce & Insurance Approved Rate	Effective Date
2001	+0.5%	+1.4%	+1.4%	3/1/2002
2002	-3.1%	0.0% (with each class code relativity to be adjusted accordingly)	0.0% (with each class code relativity to be adjusted accordingly)	3/1/2003
2003	+7.9%	+7.9%	+7.9%	3/1/2004
2004	-6.3%	-6.3%	-6.3%	9/1/2004
2005	+3.9%	+3.9%	+3.9%	7/1/2005
2005	-6.9%	-6.9%	-6.9% (net -3.3%)	7/1/2005
2006	1.6%	1.6%	1.6%	3/1/2006
2007	1.4%	0%	1.4%	3/1/2007
2007	2.4%	2.4%	2.4%	7/1/2007

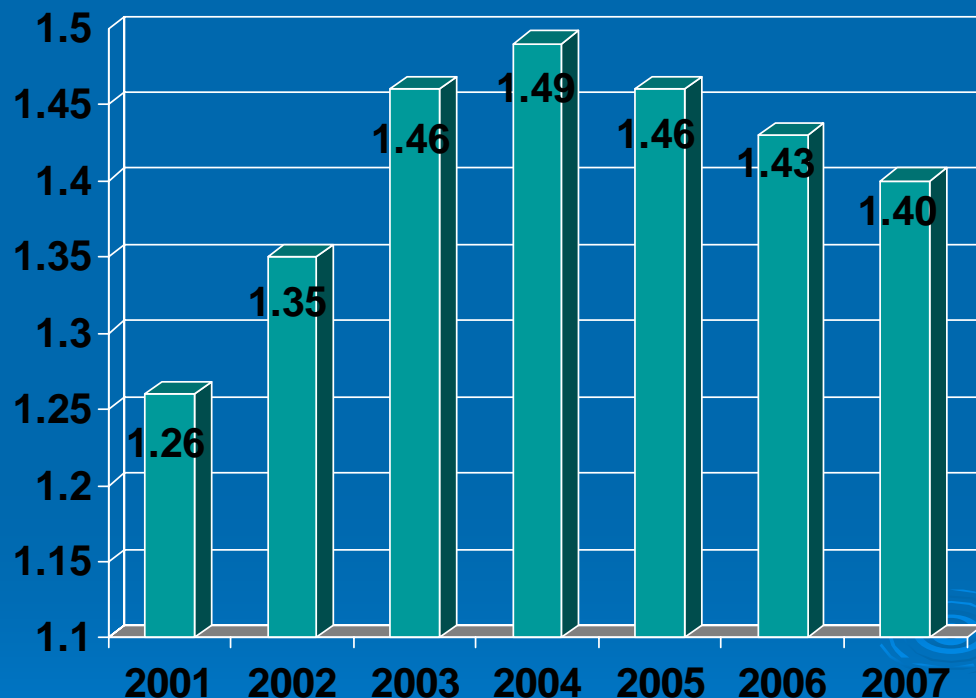
Average Approved Bureau Rates/Loss Costs



Source: NCCI; States approved through 4/13/2007

Tennessee Voluntary Market Loss Cost Multipliers (LCMs)

The loss cost multipliers in the voluntary market appear to have peaked in 2004. Multipliers are based on prior year “weighted average” market shares.



2007 LCM Distribution

by Direct Premium Written (active only)

Median 1.42



✓ 90% above 1.13

✓ 90% below 1.67

✓ 9% above 1.70 Assigned Risk LCM

The Anatomy of a Loss Cost Multiplier:

Major Pricing Components

- ✓ **Loss Cost Modifications***: Deviations from the standard loss costs - .90 is a 10% downward deviation.
- ✓ **Schedule Rating**: This reflects individual risk pricing modification not reflected in the experience modification: +/- 25%.
- ✓ **Dividend Programs**: Expected payments from surplus typically based on individual risk loss experience.
- ✓ **Projected Expenses***, including profit loads offset for investment income

* These are the two key drivers of the LCM

Tennessee Price Competition derived from 2007 Loss Cost Multiplier filings

- **Average loss cost modification is -9%**
- **Average schedule credit is -4%**

Impact of 2004 Reforms on Premiums

Calendar Yr	DPW With Reforms Included	DPW Without Reforms Factored In	Net Estimated Savings
2004	\$897m	\$917m	\$20m
2005	\$954m	\$1,054m	\$100m
2006	\$946m	\$1,085m	\$139m

50-6-134

Overview of Voluntary Market Conditions

- Profitability continuing in the market
- Carrier underwriting focus may have peaked in 2006
- Prices are softening
- Investment climate continues to be marginal
- 13 new companies since 12/12/06
- Reinsurance catastrophe capacity is abundant

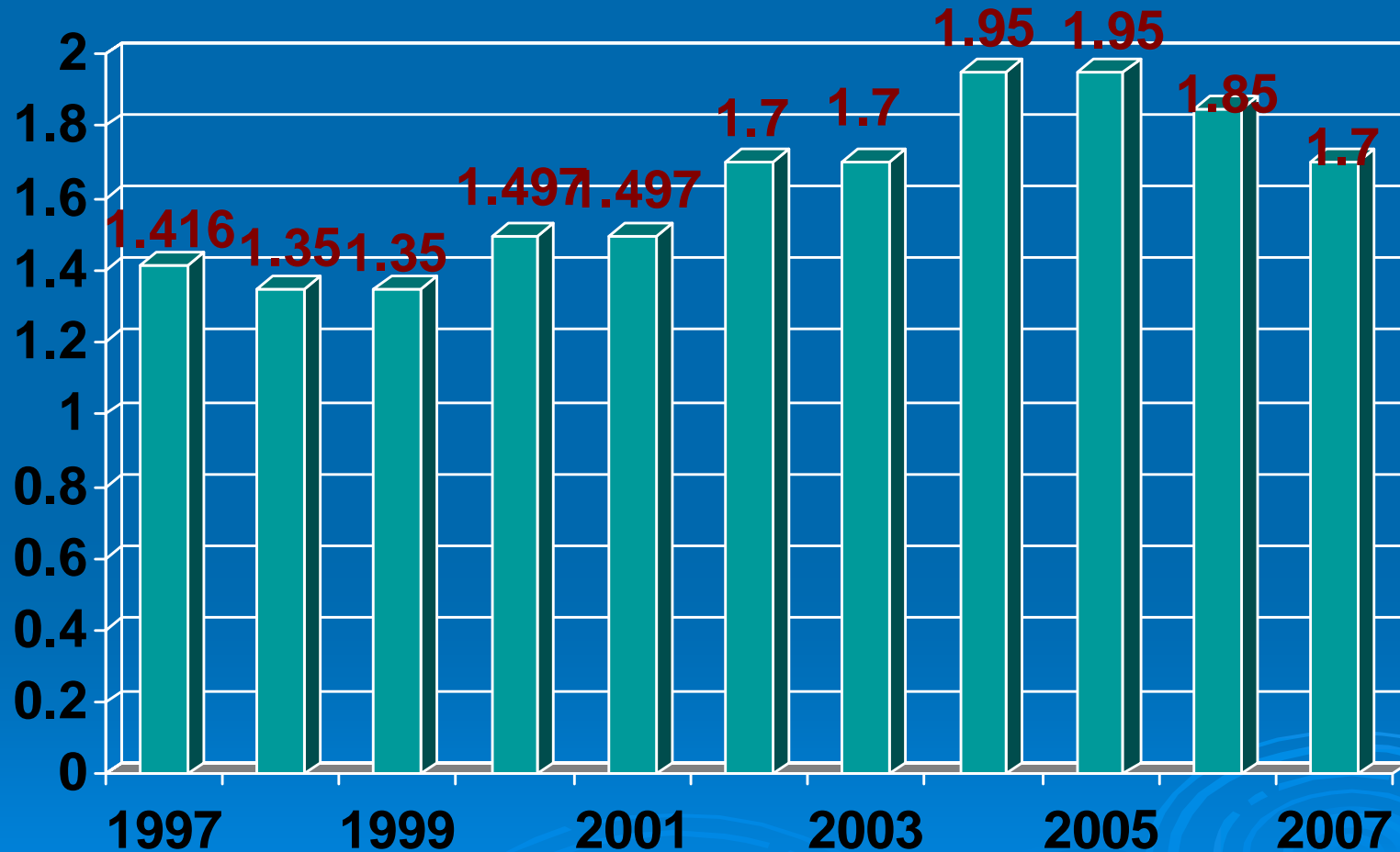
Overview of Voluntary Market Conditions

- Softening to stable reinsurance catastrophe pricing
- Reinsurance terms and conditions improved

TWCIP

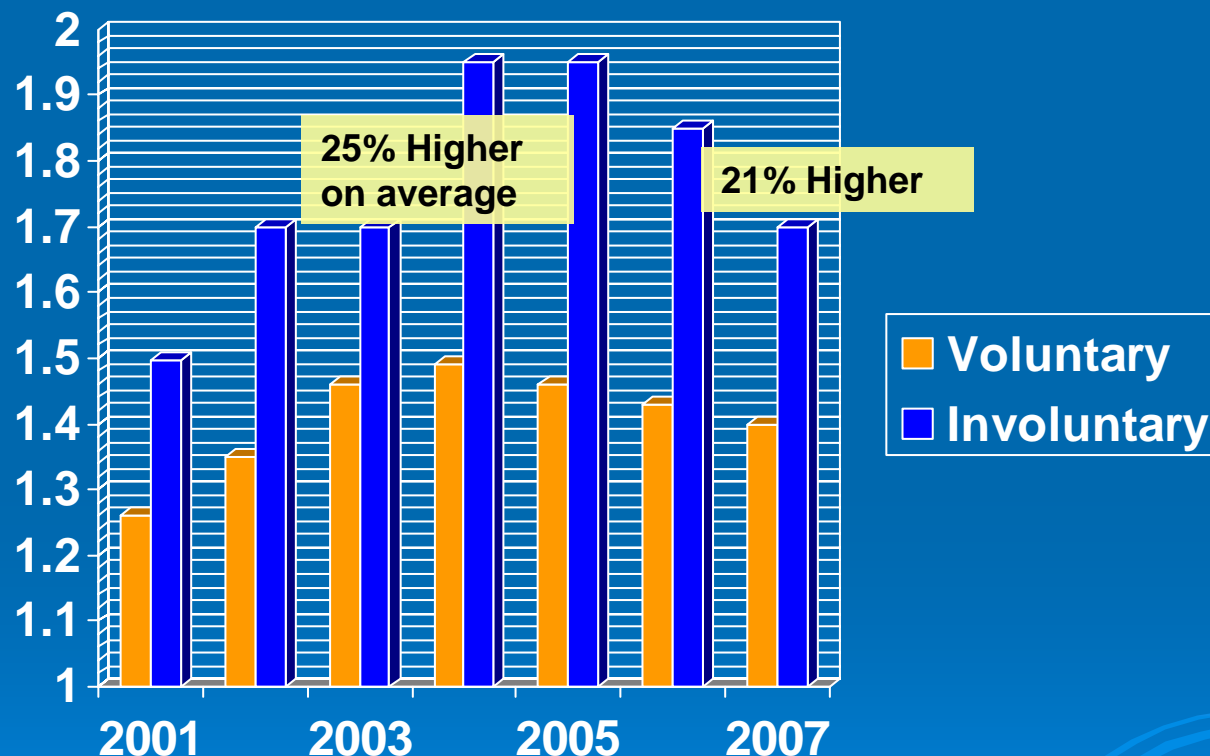
“The Assigned Risk Pool”

Assigned Risk Loss Cost Multiplier History



LCM History

Voluntary vs. TWCIP

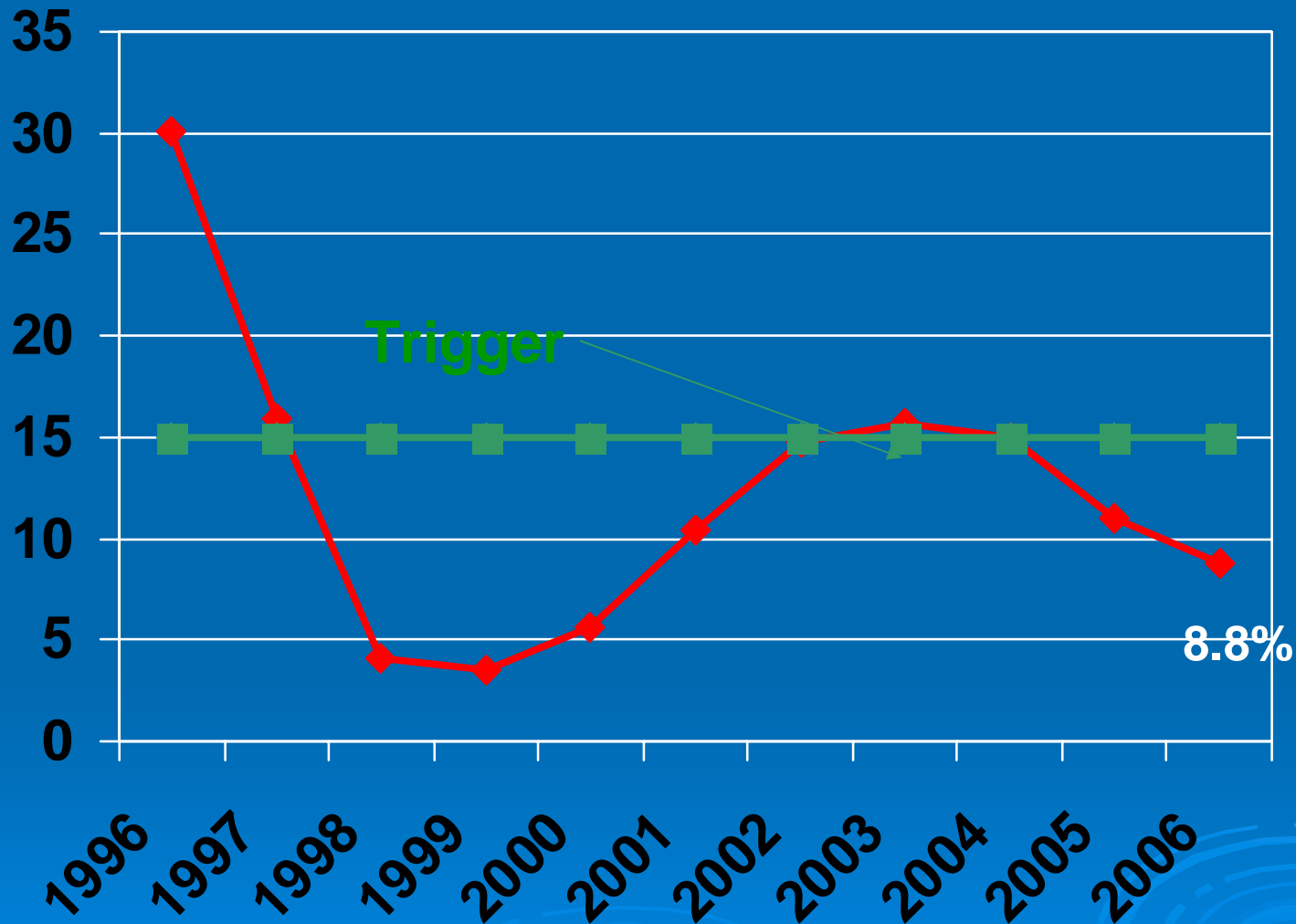


Voluntary LCM is a Weighted Average

Summary of TCA § 56-5-314(3)

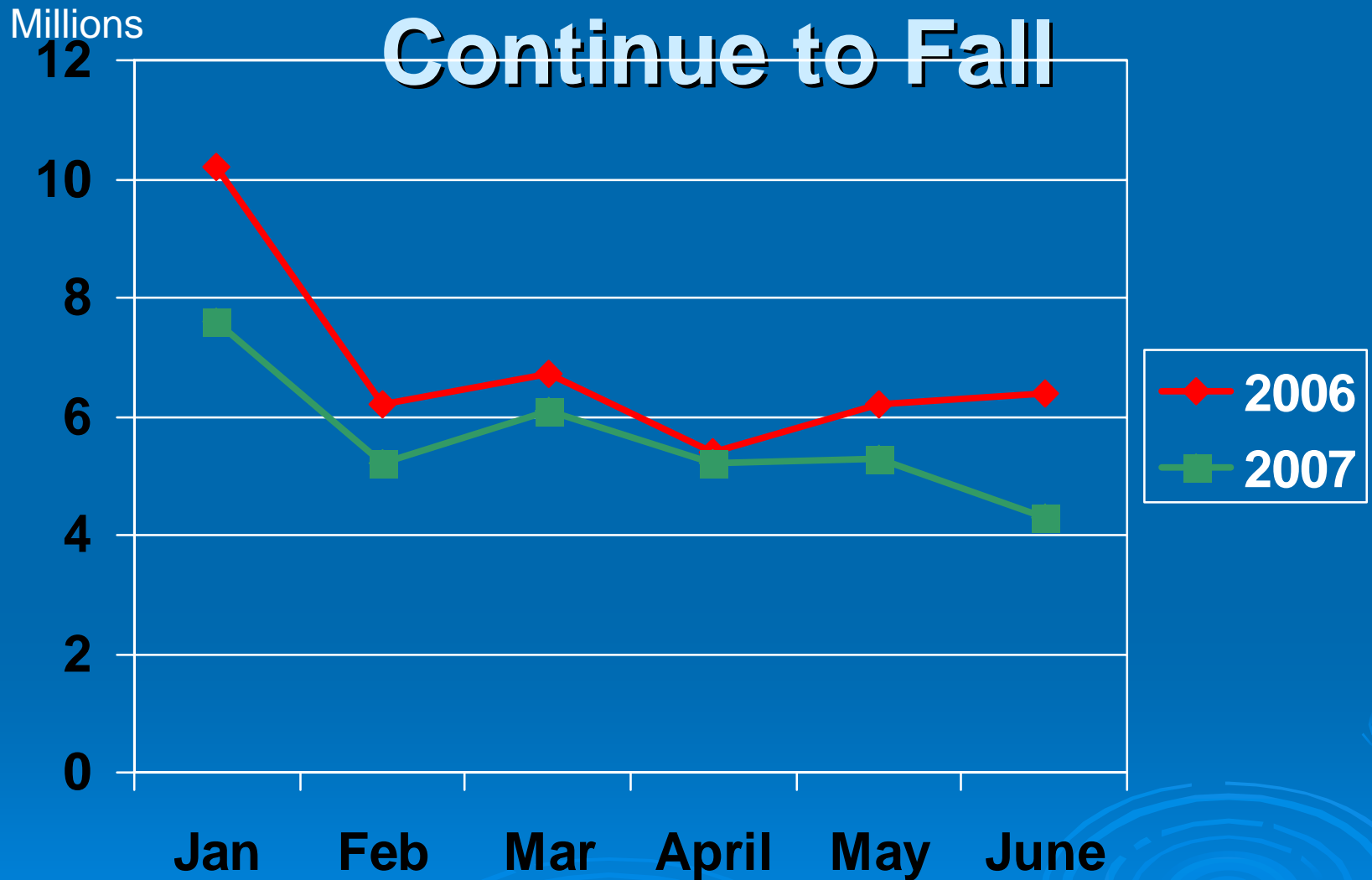
- No later than July 1 of each year, the commissioner shall report whether the membership for the prior year in the assigned risk pool exceeds 15% of the membership of the eligible employer market, not including self-insurance.
- If the percentage exceeds 15%, the commissioner shall issue a report to the workers' compensation advisory council stating the percentage and recommending one of the following actions:
 1. Activate the state workers' compensation insurance fund
 2. Implement a plan of direct assignment on a randomized basis of all assigned risk plan policies
 3. Take other actions
 4. Take no action at all

Assigned Risk Market Share



Average NCCI Countrywide Residual Market Share is 9.5%

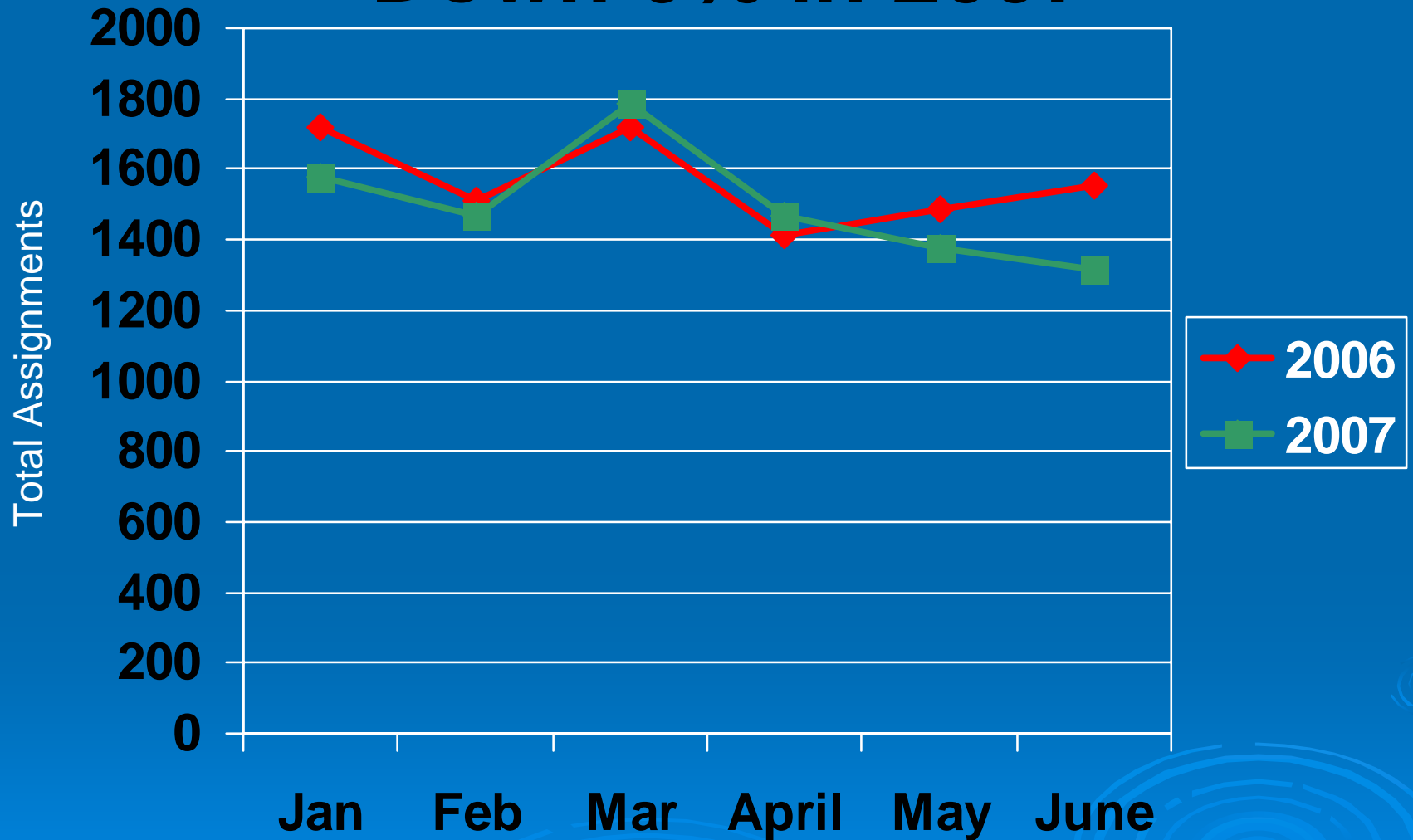
Assigned Risk Bookings Continue to Fall



Down 18% in 2007

Assigned Risk Policy Count Only

Down 6% in 2007



2007

Self Insurance

List of Self-Insured Groups

Self-Insured Groups	Examinations
Associated Builders & Contractors of TN	Completed
Comptrust AGC of Tennessee	
Home Builders Association of TN	In Progress/Draft Form
TN Association of Business Company Owners' Managed Program	No longer insuring any risk
TN Automotive Association	
TN Forestry Association	In Progress/Draft Form
TN Health Care Association	Completed
TN Restaurant Association	In Liquidation
TN Road Builders Association	No longer insuring any risk
TN Trucking Association Self-Insured Group Trust	In Liquidation

Overview of Self-Insurance Market (2006)

- **Self-Insured Employers** – 126
- Number of employees – 282,268
- Total “Premium Equivalent” – \$280 million

- **Self-Insured Groups** – 8
- Number of employees – 53,254
- Total Premium – \$53 million

Insolvencies

- *Individual carrier data included in this section includes insolvencies over \$1 Million in total losses*

WC Insolvency Data

➤ Reliance Insurance Company (PA domestic)

- Certificate of Authority restricted April 20, 2001
- October 3, 2001 liquidation date.
- TN reserves and claims count as of June 30, 2007:
 - **Total number of claims:** 1,738
 - **Total amount paid:** \$28,869,812
 - **Total unpaid claims:** \$24,585,710

WC Insolvency Data

➤ Home Insurance Company (NH Domestic)

- License suspended September 15, 2000
- June 13, 2003 liquidation date
- TN reserves and claims count as of June 30, 2007:
 - **Total number of claims:** 118
 - **Total amount paid:** \$ 1,662,479
 - **Total unpaid claims:** \$ 3,665,666

WC Insolvency Data

➤ Reciprocal of America (VA Domestic)

- License revoked July 31, 2003
- June 20, 2003 liquidation date
- TN reserves and claims count as of June 30, 2007
 - **Total number of claims:** 310
 - **Total amount paid:** \$ 1,073,252
 - **Total unpaid claims:** \$ 4,201,280

WC Insolvency Data

➤ Legion & Villanova Ins Co (PA domestics)

- Certificate of authority restricted April 20, 2001
- July 28, 2003 liquidation date.
- TN reserves and claims count as of June 30, 2007:
 - **Total number of claims:** 1,854
 - **Total amount paid:** \$30,088,133
 - **Total unpaid claims:** \$26,142,801

WC Insolvency Data

➤ Casualty Reciprocal (MO Domestic)

- Suspended October 22, 2003
- August 18, 2004 liquidation date.
- TN reserves and claims count as of June 30, 2007:
 - **Total number of claims:** 51
 - **Total amount paid:** \$ 955,871
 - **Total unpaid claims:** \$ 2,287,469

WC Insolvency Data

➤ **Realm National Ins. Co. (NY Domestic)**

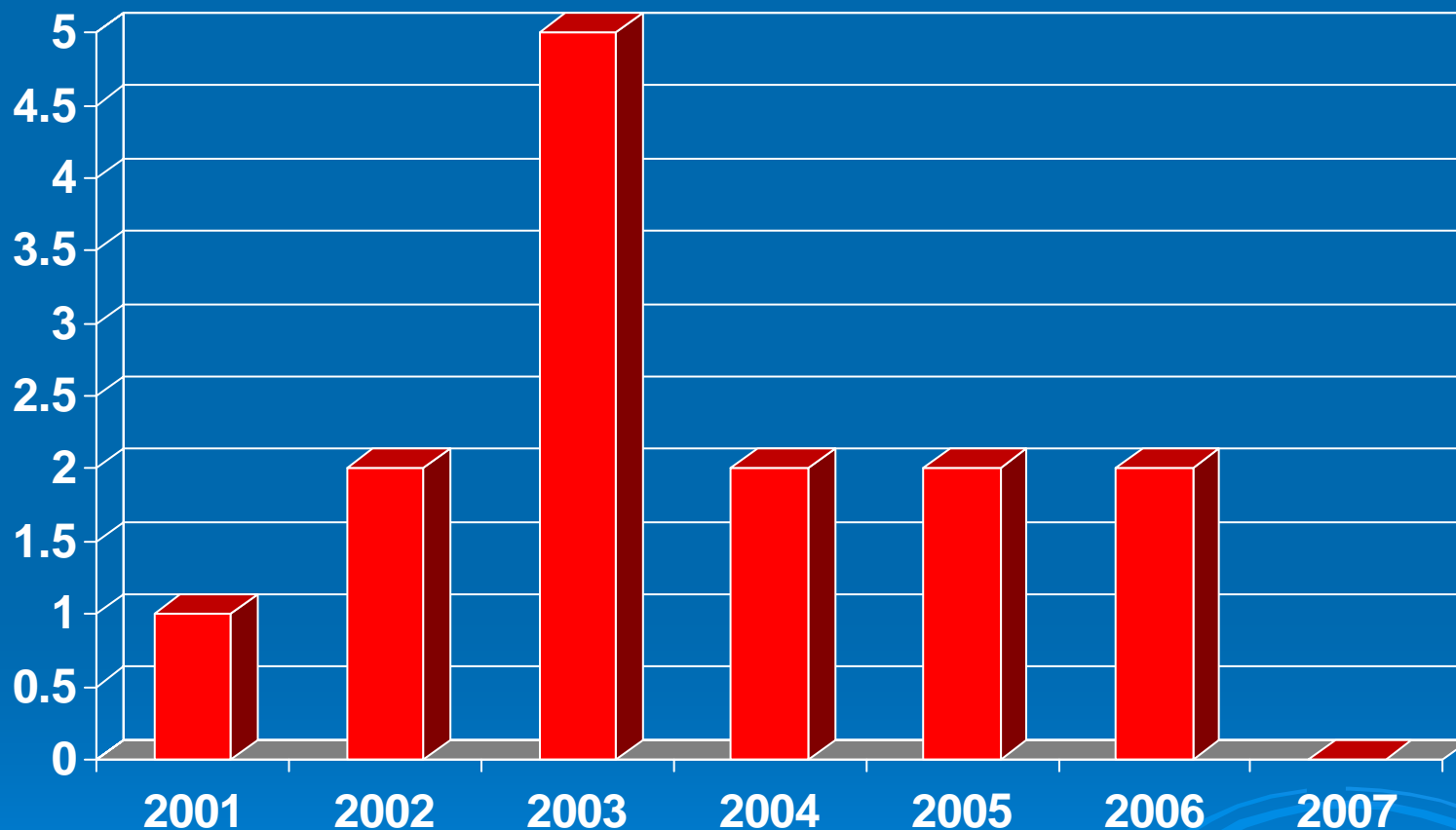
- Suspended March 17, 2004
- June 16, 2005 liquidation date.
- TN reserves and claims count as of June 30, 2007:
 - **Total number of claims:** 48
 - **Total amount paid:** \$ 1,052,050
 - **Total unpaid claims:** \$ 1,747,986

WC Insolvency Data

On the radar screen:

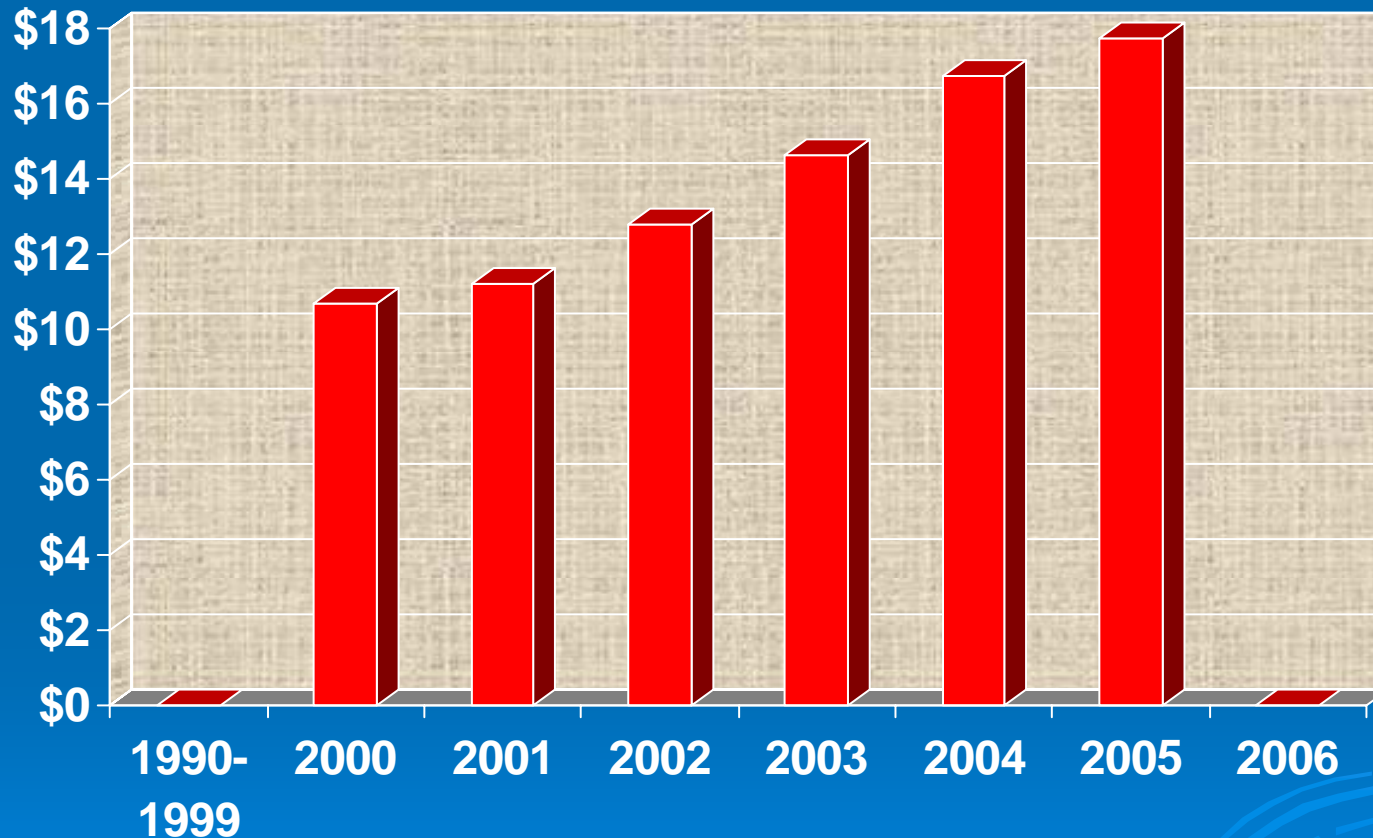
- **Kemper Group (IL Domestic)**
 - Agreed Orders entered by Commissioner Flowers on July 6, 2005 suspending Kemper Companies licensed in TN.
 - Premium as of December 31, 2006: \$302,246
 - \$13.5 million in unpaid losses

Number of WC Carrier Insolvencies Per Year



2003 Legion/Villanova combined & shown as one

Guaranty Fund Assessment History (Millions)



TN Trucking Association Self-Insurance Group Trust

- Primarily Operated: 2002 - 2003
- 53 Members
- Petition for liquidation: February 6, 2004
- \$7.8M deficiency – 306 open at date of liquidation; currently 51 open claims
- Presently, two assessments totaling \$7.8M – requiring collection actions, including garnishments

TN Trucking Association Self-Insurance Group Trust

➤ Extensive litigation has slowed the liquidation process. A small number of members have:

- Objected to the assessment methodology which was approved by Davidson Co. Chancery Court. Members appealed to TN Court of Appeals and Liquidator received a favorable opinion. Members made application for permission to appeal to the TN Supreme Court . **Court denied application.**
- Refused to pay the court ordered assessment. A show cause order filed as to why they should not be held in contempt of court. Bank accounts were garnished. Members appealed to TN Court of Appeals and Liquidator received a favorable opinion. Members applied for permission to appeal to the TN Supreme Court. **Application to the Supreme Court was denied.**
- Objected to Liquidator's fees and expenses which the trial court approved. Members appealed this issue to TN Court of Appeals where it was remanded to the trial court. **Members withdrew objections.**

TN Trucking Association Self-Insurance Group Trust

- The Commissioner (Liquidator) filed a 3rd party complaint against the Trust's former Board of Trustees, the TN Trucking Association, the Trust's former Administrator, its president and executive vice president and the Trust's former TPA.
- The Commissioner (Liquidator) reached comprehensive settlements with the Trust's former TPA and with the Trust's former Board of Trustees.
- The complaint against the TN Trucking Association and the Trust's former administrator remains open.

TN Trucking Association Self-Insurance Group Trust

- Individual directors filed a third-party complaint against the Trust's former TPA. The directors alleged they were beneficiaries of the administrative services agreement between the TPA and the Trust, and that the TPA breached its contract with the Trust.
- Chancery Court dismissed breach of fiduciary duty claims, but allowed the individual directors to proceed with a suit against the TPA for breach of contract and negligence after the Commissioner (as Liquidator) had reached a comprehensive settlement with the TPA on behalf of the Trust.
- The Trustees have moved to voluntarily dismiss the complaint against the former TPA.

TN Restaurant Association Self-Insurance Group Trust

- Primarily Operated: 1994 through 2005
- Over 600 Members
- Petition for liquidation: December 9, 2005
- Estimated deficiency @ October 2006 was over \$1.3m with 138 open claims
- Presently, one assessment totaling \$1.5M – Approximately 70% collected
- Implement collection actions -- for assessments from non-paying members
- Further assessments are anticipated

Market Summary

POSITIVES

- **Results Very Favorable**
- **Frequency continues to decline**
- **Industry reserve deficiency almost gone**
- **Significant reduction in population of residual market – positive trend**

NEGATIVES

- **Medical severity continues rapid growth**
- **Low investment returns continue to pressure underwriting results**

Summary: Significant NCCI filings reported quarterly

- **Item B-1403 – Revision to Basic Manual and Retrospective Rating Plan Manual/2006 Update to Hazard Groups and Retrospective Rating Plan Parameters** – The purpose of this item was to revise the Hazard groups and update the Expected Loss Ranges and State Hazard Group Relativities in the NCCI *Basic Manual for Workers Compensation and Employers Liability Insurance* and the *Retrospective Rating Plan Manual*. The number of hazard groups increased from four to seven, though carriers had the option of keeping four.
- **Item B-1397-Revision to Basic Manual Classification and Rules** - The purpose of this item was to clarify, eliminate, or combine classifications in the *Basic Manual for Workers Compensation and Employers Liability Insurance* for eight industries: Eff. 3/1/2008
- **Item RM-14-TN-2006 – TWCIP Subplan Additions**. Implemented two additional subplans – Small Employer Plan and the Special Risk Plan – as required in TCA 56-5-314(c)(6)(A) and added an incentive plan for high mod. risks to attend a safety/claims seminar. Eff. 1/1/07.
- **Amended Tennessee Residual Market Rate Filing – Domestic Terrorism, Earthquakes and Catastrophic Industrial Accidents Provision (DTEC)** – Department directed NCCI to change the TWCIP DTEC rate from \$.04 to \$.03. The provision was based on the use of current rather than historical values for the Residual Market Expense multiplier and Loss Adjustment provision.

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Questions?